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SENSITIVE

FROM U.S. MISSION TO THE UN AGENCIES IN ROME

STATE FOR NEA/IR AMBASSADOR RAPHEL, IO A/S HOLMES, IO/EDA
USDA/FAS FOR U/S PENN, ETERPSTRA, MCHAMBLISS, RTILSWORTH AND
LSCHATZ
USAID FOR AA/DCHA WINTER, AA/ANE, DCHA/OFDA, D/DCHA/FFP
LANDIS
JOINT STAFF FOR JE/J4/J5
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SUBJECT: IRAQ: WFP WARNS OF POSSIBLE BREAKS IN FOOD PIPELINE
UNLESS COORDINATION ON CONTRACTS IMPROVES QUICKLY

Sensitive but unclassified -- please handle accordingly.

1. (SBU) Summary: During February 26 meetings in Rome with the Coordinator for Iraq Reconstruction, Ambassador Robin L. Raphel, officials of the World Food Program (WFP) warned that difficulties in the management and coordination of food contracts and deliveries with authorities in Baghdad, if not corrected rapidly, could result in breaks in the pipeline of essential food commodities in the months ahead. They said that, under current conditions, it was very difficult to ensure that a 3-month buffer stock of food would be on hand when sovereignty is transferred at the end of June. WFP officials insisted that, with appropriate support and cooperation from the Iraqi Ministry of Trade (MOT) and the Coalition Provisional Authority (CPA), WFP is capable of meeting food delivery targets, and they reaffirmed their commitment to ensuring food security in Iraq during the current transition phase. They explained, however, that slow release of funds, delays and apparent irregularities in contract specifications, contradictory instructions from MOT and CPA, and other obstacles have made it very difficult for WFP to do its job under the terms of the January 2004 MOT-CPA-WFP Memorandum of Understanding (MOU). On February 27, Ambassador Raphel raised these issues with Iraqi Trade Minister Ali Allawi, who was in Rome on other business. She and the U.S. Mission also arranged for WFP officials to discuss their concerns directly with the Minister that day. Mission recommends that WFP and CPA officials meet at the earliest opportunity to discuss ways to improve coordination and cooperation, so that food insecurity does not further complicate the situation in Iraq during the crucial political transition later this year. After this message was drafted, WFP Country Director Torben Due traveled to Baghdad for 24 hours for extensive meetings with CPA, MOT, and Ambassador Raphel. Due succeeded in working through some of the issues described below. End summary.

2. (U) In a day-long series of meetings at WFP on February 26, Ambassador Raphel discussed food pipeline, contracts, procurement and transport issues in Iraq with Executive Director James Morris, Deputy Executive Director (Operations) Jean-Jacques Graisse, Middle East Regional Director Khaled Adly, Iraq Country Director Torben Due, Iraq Regional Operations Manager Amer Daoudi and other WFP staff. Andrea Farsakh (NEA/IR), Deborah Linde (IO/EDA) and Willem Brakel (Alternate Permrep, U.S. Mission) accompanied. The discussions with senior officials took place at WFP Headquarters. Detailed conversations at the operational level were held at WFP's special Iraq Logistics Unit located in a separate facility in the south of Rome.

BACKGROUND: WFP-MOT-CPA MEMORANDUM OF UNDERSTANDING

3. (U) In the latter part of 2003, CPA and MOT made a specific request for WFP to provide support to Iraq's public distribution system (PDS) for food staples from 22 November 2003 through June 2004. On 7-8 January 2004, WFP, MOT and CPA signed an MOU that spelled out the terms of WFP's involvement and the responsibilities of each party. The parties agreed to carry out the following activities (only highlights of each article presented here):

(1) Capacity Building and Training: WFP to provide training and support for MOT staff on procurement, transport and pipeline functions, with a view to MOT reassuming full responsibility for PDS management upon termination of the MOU.

(2) Procurement of Buffer Stocks and Shortfall

Commodities: MOT to provide WFP with detailed commodity specifications for each commodity in the PDS food basket within one week of the effective date of the MOU. WFP to procure, according to its own rules and regulations, commodities as requested by CPA, initially \$110 million worth. Additional WFP procurement to follow as agreed by all parties until 31 March 2004, after which procurement becomes the

responsibility of MOT.

(3) Renegotiation of Contracts Amended under SCR 1483: CPA to authorize WFP to further renegotiate terms of delivery of food contracts renegotiated under this resolution. Except for quantities already afloat, WFP to approach suppliers to propose renegotiation of delivery terms from CIF 18 Governorates to FOB loading port, and to revise prices to reflect current costs.

(4) Shipping and Overland Transportation: WFP to deliver to Iraq all the commodities it procures under the new and renegotiated contracts. WFP to arrange delivery of commodities under new contracts to one of three designated hubs (Baghdad, Mosul, Umm Qasr). WFP to maintain offices in Jordan, Turkey, Syria and Kuwait to monitor deliveries. WFP responsibility for shipments to end upon delivery at the hub and certification of shipment by an independent surveyor, after which title passes to MOT. MOT to ensure that no trucks carrying WFP shipments are diverted. MOT to ensure that truck offloading times at hubs do not exceed 48 hours and to assume responsibility for demurrage charges thereafter.

(5) Pipeline Data: MOT to provide an updated monthly allocation plan by commodity for each hub, taking into account needs and stock levels. MOT also to provide a weekly countrywide stock report per commodity, and a monthly stock report for each hub and for PDS stocks in each governorate.

(6) Other PDS Management, Coordination and Capacity Issues: MOT to commit appropriate resources to manage the PDS and to staff the Baghdad Coordination Center; to provide accurate local and national inventory monitoring systems; and to ensure adequate storage space and handling capacity. CPA to establish and manage the Coordination Center; to assign liaison staff; and to provide MOT with communications capability.

(7) Financing: The goods and services to be provided by WFP were costed as follows:

Direct Operational Costs	\$844,191,000
Direct Support Costs	\$26,622,000
Indirect Support Costs (4.5%)	\$39,187,000
Total WFP Costs	\$910,000,000

CPA is to fund the cost of commodities under Article (2), external and overland transport, direct support costs (with some exceptions) and indirect support costs.

14. (U) The MOU is effective from the date of signature until 30 June 2004, and, with respect to commodities procured or renegotiated still en route, until the date of delivery. WFP undertook to assist in the supply of the following commodities: wheat, rice, pulses, vegetable ghee, sugar, tea, milk, salt, infant formula, weaning cereal, olive oil, as well as soap, detergent, sodium silicate and sodium sulfate.

WFP'S PROGRESS AND CONCERNS AS OF 26 FEBRUARY

15. (SBU) In their discussions with Ambassador Raphel on 26 February, WFP officials reaffirmed their commitment to assisting in procuring and delivering commodities for Iraq under the terms of the MOU. They cited WFP's longstanding, close working relationship with Washington as a key factor, in addition to WFP's global food security mandate. The WFP officials expressed concern, however, that current working relationships on the ground are hampering WFP's efforts in Iraq. They are concerned about confused lines of authority and conflicting or uncoordinated instructions from CPA and MOT. WFP staff feel that some in Baghdad are actively trying to impede and hamper WFP's work. They warned that,

if the situation is not corrected within the coming 1-2 weeks, there will be no buffer stock and there is a serious risk of an interruption in the food pipeline. One official said, "we're losing time." Another added "this cannot

continue," pointing out that it takes 3-4 months between the initial tendering and final delivery in Iraq. Many of WFP's comments were linked to issues or perceived shortcomings regarding the implementation of various articles of the MOU. For the sake of clarity, we present WFP's key points in paras 6-14 below as they are sequenced in the agreement.

Capacity Building and Training

16. (SBU) WFP currently has four Iraqi women from MOT working in its Iraq Logistics Unit in Rome. WFP officials recognized the importance of training, but they pointed out that involving Iraqi nationals directly in procurement and tendering operations poses potential conflict-of-interest problems. They suggested it might be more useful to involve Iraqi trainees in procurement operations for other countries or regions, so that the trainees can observe WFP's procedures without running afoul of the auditors. They noted, however, that some Iraqis expressed resentment over their perceived isolation, which they saw as a sign of mistrust, when in fact it is standard operating procedure for WFP. One WFP official conceded that the relationship between WFP and MOT had deteriorated to the extent that not much capacity building was feasible.

Procurement of Buffer Stocks and Shortfall Commodities

17. (SBU) WFP staff called attention to what they consider serious delays and other problems with the contract specifications provided by CPA/MOT. They said that, as of 26 February, wheat specifications had not yet been finalized. In their view, the initial specifications WFP received for rice at the end of January were so stringent as to be "virtually impossible." At a February 25 coordination meeting in Amman, WFP was provisionally informed of new specifications for rice; but to WFP staff it appears that only U.S. suppliers can meet the new specifications -- at a cost up to 80% higher than Southeast Asian suppliers. Speaking more generally, WFP officials defended WFP's procurement procedures, which include secure firewalls around the tendering process. They argued that WFP's procedures were approved by the Executive Board and procurement operations are rigorously audited. They maintained that publishing details of prices and quantities on recently awarded contracts -- as some parties and suppliers have called for in the name of transparency -- is not appropriate for the international markets in which WFP is operating, as this gives too much of an advantage to suppliers.

18. (U) According to WFP, the agency has finalized 210 contracts for 1,357,636 MT, as of February 27. Another 47 contracts for 851,886 MT are termed "ongoing." These and other figures are reported to MOT and CPA in a weekly email containing detailed spreadsheets that is sent out every Friday afternoon.

Renegotiated Contracts

19. (U) WFP interlocutors reported that, as of February 27, WFP had renegotiated 409 contracts for 2,769,768 MT of commodities. They estimated that the renegotiated Oil-for-Food contracts will be sufficient to meet requirements until May.

Shipping and Overland Transportation

110. (SBU) The WFP Regional Operations Manager expressed concern about port congestion and MOT's limited capacity for offloading vessels. Several vessels carrying Australian bulk wheat are already experiencing significant delays due to offloading constraints and inspection/certification

delays. On 26 February there were 2 vessels at Umm Qasr waiting since 5 and 6 February, respectively, for inspection and sampling. One vessel was still waiting for berthing/discharging at Umm Qasr since arriving at Dubai Roads for inspection on 6 February. Four additional wheat-laden vessels are due to arrive at Umm Qasr in March. Similar problems could arise at Aqaba. The WFP official pointed out that, in addition to contributing to possible pipeline problems, such delays waste scarce resources when MOT is required to pay high demurrage charges.

111. (SBU) WFP also is concerned by recent instructions from CPA to convert some delivery contracts from free on board (FOB) to cost, insurance and freight (CIF). Such a change would put WFP in a precarious position of having to depend on third parties to certify delivery of shipments that it cannot confirm directly. This opens up liability issues or could cast doubt on WFP's reliability in the

market if it cannot pay promptly after delivery. With regard to this particular instruction from CPA, WFP staff also expressed concern about the haphazard, ad-hoc nature of the communication, which came in the form of an improvised letter on hotel stationary.

Pipeline Data

12. (SBU) WFP staff said they have not been receiving regular data on inventories, and what numbers they do receive are unreliable and subject to sudden, large and unexplained stock adjustments. They maintained that, in this environment, it was difficult to plan deliveries rationally and effectively. WFP officials also reported that they were not receiving vital information on arrivals of food and non-food cargo likely to impact port or storage availability for PDS commodities. Meanwhile, on a more positive note, WFP reported progress on a baseline food security assessment that identifies areas of concentration of vulnerable populations within governorates.

Other PDS Management, Coordination and Capacity Issues

13. (SBU) According to WFP officials, the Baghdad Coordination Center lacks experienced staff and has not been able to do much in the way of coordination to support and facilitate logistics operations. What, they asked, is the Center's added value? They suggested a re-thinking of the Center's terms of reference. WFP staff also complained about the peremptory tone of some communications received from CPA, which they found insulting as professionals.

Financing

14. (SBU) WFP officials told Ambassador Raphael that funds for WFP's food procurement activities for Iraq had been slow to arrive. The first tranche of \$110 million was received in mid January. The second tranche of \$350 million was announced in late January, but was not received by WFP until February 24. The remaining \$531 million will be needed soon if WFP is to complete all necessary procurement by March 31.

Looking Ahead

15. (SBU) In conclusion, Graisse and his colleagues reiterated that WFP is anxious to do the job well, and do it right. They maintained that they could do this if obstacles were not thrown in their way. They said they were worried there will be finger-pointing at WFP at the end of the day - and indeed it has already begun, according to one WFP official. Graisse noted that "we are burning our bridges with the new administration," which could limit WFP's future work in Iraq. (Under the UN Strategic Plan for Iraq, WFP has been selected as the Task Manager of the Food Security Cluster. Among the safety net activities is a school feeding project that, in its March-May 2004 pilot phase, will cover over 800,000 school children in 10 governorates, to be extended to 2 million children in its September 2004 -

May 2005 expansion phase.) The WFP officials said it was important to improve communication with Baghdad, and wanted an opportunity for discussions first with CPA.

U.S. RESPONSE AND FOLLOW-UP MEETINGS

16. (SBU) Ambassador Raphael responded to WFP officials that Iraq's food pipeline is a key priority for Washington. She said she would take up the concerns expressed by WFP with the appropriate officials in Baghdad (where she would be going the first week of March). She said that it might be appropriate to refine the scope of the Coordination Center, and perhaps concentrate first on the essential food contracts to ensure a 3-month buffer stock by July. She said she also would speak directly to Trade Minister Ali Allawi (coincidentally in Rome on other business and whom she would be meeting the next morning), to inform him of the situation.

17. (SBU) Minister Allawi reacted positively to Ambassador Raphael's suggestion of a direct meeting between the Minister and WFP representatives. U.S. Mission therefore arranged for Allawi to meet WFP officials Graisse, Due, and Daoudi for an hour on the afternoon of 27 February. Alternate Permrep also attended. Graisse told Allawi that WFP wanted to do its job of delivering food under the MOU, but needed clear, consistent marching orders to do so. He warned of potential pipeline breaks. The Minister replied, "I give orders, but nobody marches." He said he had set up a DG-

level committee headed by his deputy to manage food and related contracts, and that he had heard complaints about WFP regarding tendering snafus, quality problems, delayed letters of credit, lack of updated information on contracts, and WFP's alleged tendency to deal with CPA instead of MOT. The WFP officials had convincing rebuttals to all of these allegations, which they sought to demonstrate were either erroneous or based on circumstances outside of WFP's control.

18. (SBU) As the discussion turned to major recent WFP contracts, it was evident that Allawi had not been briefed by his staff and that he had not received clear information on the processes WFP was following. The Minister and Graisse agreed that WFP would hand-deliver to the former at his hotel its latest weekly pipeline update, and that Operations Manager Daoudi would remain on standby to answer any questions the Minister might have before he departed Rome the following morning. WFP contacts were grateful for the opportunity to clear up misunderstandings and set the record straight; but one of them subsequently pointed out that the Minister never called back for further information.

19. (SBU) Finally, on 1 March, Lee Schatz (Office of the Administrator, USDA/FAS) transited Rome in returning to Washington from a CPA-MOT-WFP coordination meeting in Amman. U.S. Mission arranged for him to meet with Daoudi and three other colleagues at WFP, which allowed a fuller exchange that covered many of the issues described above and provided further clarification.

U.S. MISSION COMMENT

20. (SBU) WFP has been a outstanding USG partner in meeting emergency food needs and achieving U.S. humanitarian objectives in crisis areas around the globe. This relationship has intensified in the past 12 years since WFP has had an American Executive Director. It is large part due to the special relationship between the USG and WFP that the latter has responded positively to our request to assist in addressing Iraq's food needs. This is an operation that lies outside WFP's usual mandate and is fraught with political and physical risks for the organization and its staff. We have the highest confidence in the professionalism and integrity of WFP operations, and in Rome enjoy a close working relationship with WFP at the highest

levels. There are inevitable frictions in a tense post-conflict situation, but we are convinced that these can be resolved through frank communication. We urge that WFP and CPA officials arrange to meet at the earliest opportunity to resolve any questions regarding WFP food procurement and deliveries to Iraq, and specifically to agree on priorities and a game plan to deal with an increasingly reluctant MOT. (This subsequently occurred March 3-4, as reported in Baghdad 0045.) U.S. Mission stands ready to use its personal contacts and influence with WFP to facilitate contacts and address any unresolved questions.

21. (U) Ambassador Raphel cleared this cable.

22. (U) Minimize considered.

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